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SUBJECT: VENEZUELA'S HOUSING CRISIS - SOCIALISM THE ANSWER

REF: 2007 CARACAS 554

¶1. (SBU) SUMMARY: An estimated 2 million unit housing shortage is complicating Chavez' chances for success in the November state and local elections. In an effort to improve one of the worst housing construction records of any recent administration, Chavez has nationalized companies providing construction inputs such as steel and cement, restructured the Housing Ministry with a renewed emphasis on community councils, and promoted high-profile joint housing projects with countries such as Iran, Cuba and Belarus. Chavez also announced on August 24 that he wants to create a huge, state-owned "National Construction Company" that would help solve the housing crisis. END SUMMARY.

CHAVEZ - POOREST RESULTS OF ANY RECENT ADMINISTRATION

¶2. (SBU) The Institute of Latin American Social Studies (ILDIS) recently reported that 20 percent of the protests in Venezuela in 2007 were related to housing issues. Moreover, some estimates indicate up to 54 percent of the residents of Caracas live in "barrios" or slums. Chavez himself stated in June "the housing problem is one of the greatest that exists and the mayors and ministries lack an integrated system to attack the problem." The President of the Venezuelan Construction Chamber Pedro Azpurua told Econoff the Chamber estimates 8 million Venezuelans out of a population of 28 million lack acceptable housing.

¶3. (SBU) The author of an ILDIS study released in July "The Actual State of Venezuela's Social Missions," Thanali Patruyo reports that the current government's results in the housing sector are worse than the poorest efforts by previous administrations in the 90's. He noted that former president Carlos Andres Perez built 98,532 houses in 1992 in spite of a coup attempt. Rafael Caldera built 91,979 houses in 1997 with oil at USD 8 a barrel. By contrast, the study indicates in 2006 Chavez only managed to build 33,867 houses.

¶4. (SBU) ILDIS reported that even with a budget of over USD 5 billion between 2005 and 2007, the BRV has been unable to meet its own goals. The National Housing Construction Plan's aim for 2005 was 120,000 new housing units but the BRV completed 16,000 units. The 2006 goal was a more modest 75,919 units with 33,867 units built. In 2007, the Ministry promised 80,000 units with 36,680 actually constructed. Thus far in 2008 the public sector has built approximately 15,000 housing units, which makes it unlikely the Bolivarian Republic of Venezuela (BRV) will meet its 2008 goal of 130,000 units.

¶5. (SBU) Although the BRV more than doubled the housing

budget to USD 2.8 billion in 2008, according to the BRV's Office of Public Finance in the first six months of 2008 only 35 percent of the budget has been programmed. The Construction Chamber argues the BRV needs to spend USD 4 billion a year and construct a minimum of 200,000 housing units annually to address the housing shortfall.

CAPITALISM THE PROBLEM, SOCIALISM THE ANSWER

¶6. (SBU) In response to public protests, Chavez has replaced three housing ministers so far in 2008 with a former minister of culture Farruco Sesto replacing Edith Gomez in June. Since the Ministry's inception in 2004, it has gone through six different ministers. During a June 19 conference on the "Transformation of Housing through Communal Management", Chavez said that with the new housing minister would come a "housing revolution." He added that Venezuela's housing problem is the result of the capitalist model and that it cannot be solved with capitalist methods.

¶7. (SBU) In the June 2008 housing conference, Chavez announced "we have recovered the cement plants, a steel plant, and we are in the process of recovering everything related to steel, iron and brick. All of this forms part of the strategy. We aren't doing this in a crazy way. No, we have a strategy for social and economic development." In remarks made on August 21 following the nationalization of the three international cement companies in Venezuela, Chavez claimed "we have been unable to advance in certain projects because of a lack of resources..." He went on to say the government would increase the "social production" of

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construction materials "and decrease the cost of production, which is high because of multinational companies" in the sector.

¶8. (SBU) On August 24, Chavez announced that he wants to create a huge, state-owned construction company "that has a thousand machines that make everything in all colors and sizes, with asphalt and concrete factories: this will lower costs and give us more power to solve problems." The BRV already jointly owns a construction company with Cuba and has invested USD 200 million in a program with Iran to construct 10,000 housing units. The BRV plans to build 20,000 more units with China and has advanced Belarus USD 90 million for 5,000 additional units. Critics worry that based on past performance, few houses will actually be built under these schemes.

¶9. (SBU) Construction Chamber President Azpurua noted the houses the BRV does build tend to be in large developments with no electricity, sewage, or roads and no schools or jobs within hours. The poor take title to their new homes but never move out of the "barrios" or slums of Caracas as the new developments do not meet their needs. Azpurua argued that the BRV could solve 30 percent of the housing problem if it gave the poor grants or subsidized mortgages and allowed them to select their own housing rather than build more mega-developments in the middle of nowhere.

¶10. (SBU) As part of Chavez' strategy to socialize the construction industry, the new housing law reemphasizes that community councils are to manage the construction of housing solutions. However, on July 18 Minister Sesto called for "revolutionary patience" on the part of communities that are protesting due to the BRV's failure to make good on long-promised housing developments. Sesto asked for more time as he is trying to verify that the projects proposed by community councils are truly community-based projects and are not backed by construction companies or land owners. (NOTE: The 2006 Law of Community Councils mandates that the councils receive funds directly from the central government, bypassing state and local authorities, in order to initiate and manage

all sorts of grass roots projects. Chavez claimed he set aside USD 2.8 billion for the councils in 2007 and USD 4.7 billion in 2008 with hopes for more than 50,000 councils by the end of 2008. Critics argue there are no real financial controls over the councils and waste and abuse is common. See reftel for additional information. END NOTE.)

COMMENT

¶11. (SBU) Housing is an issue that matters to Chavez' strongest supporters. The BRV has publicly acknowledged that construction has been slow and they have committed errors. Statistics indicate the BRV has been unable to keep up with the modest residential construction efforts of previous administrations. Although Chavez recently justified the nationalization of the cement industry by claiming this would increase housing construction, the Central Bank of Venezuela estimates constructing 100,000 housing units would only require 10 percent of Venezuela's current cement production. Primarily BRV-funded infrastructure projects, not shopping malls as Chavez claims, currently consume 85 percent of the country's cement production. Almost every day a protest takes place over housing long-promised but never delivered, or half-finished, abandoned developments. Although the BRV is trying to prove it is serious about resolving the housing crisis with sweeping nationalizations in the construction sector, if the poor do not see progress towards meeting their housing needs, they may take out their frustrations at the ballot boxes in November.

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